



Top Ten Things to Strengthen Internal Controls in the Office

1. Ensure Duties Are Segregated

Segregation of duties is a basic, key internal control and one of the most difficult to achieve. At the most basic level, it means that no single individual should have control over two or more phases of a transaction or operation. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Segregation of duties provides two benefits: 1) make a deliberate fraud more difficult because it requires collusion of two or more persons, and 2) make it much more likely that innocent errors will be found.

If a single person can carry out and conceal errors and/or irregularities in the course of performing their day-to-day activities they have generally been assigned or allowed access to incompatible duties or responsibilities.

2. Develop Adequate Physical Control of Assets

Controls should be established to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.

3. Identify Risks in Your Office

In order to properly manage risks, you must first identify them. Once risks have been identified, they should be analyzed for their possible effect. Risk analysis generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how to manage the risk and what actions should be taken. Risks can often be identified by asking yourself:

What could go wrong?

How could we fail?

Where are we most vulnerable?

What assets do we need to protect?

How could someone steal from the department?

On what information do we most rely?

On what do we spend the most money?

How do we collect our revenue?

How can someone bypass our internal controls?

Do we have new technology?

Do we have new personnel?

What is our past performance?

4. Correct Errors Promptly

Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. However, errors detected at any stage of a process should receive prompt corrective action and be reported to the appropriate level of management.

5. Develop Written Policies and Procedures

Although OSF, DCS, and other central service agencies have procedures manual for agencies to follow, an agency should develop its own comprehensive procedures manual for its internal business and financial processes. Written procedures serve various functions. They provide written notice to all employees of the agency's expectations and practices; provide direction in the correct way of processing transactions; serve as reference material; and provide a training tool for new employees. Written procedures also provide a source of continuity and a basis for uniformity. Without clear, written and current procedures, an internal control structure is weaker because practices, controls, guidelines and processes may not be applied consistently, correctly and uniformly throughout the agency.

6. Perform Reconciliations Regularly

Reconciliations are often an underappreciated internal control. When performed correctly and routinely, they provide a powerful control to identify and correct errors on a timely basis. Agencies should reconcile all funds and accounts on at least a monthly basis and record any necessary adjustments in a timely manner. The reconciliation should be reviewed by a person outside of the reconciliation process and the reviewer should sign and date the reconciliation to signify that the review has been satisfactorily completed and any discrepancies resolved.

7. Review and Approve Processes/Transactions

When a significant process or transaction is performed within an agency, there should always be another level of review and approval performed by an individual independent of the process. The reviewer should have the experience and knowledge to be able to identify errors and omissions. The approval should be documented to verify that a review has been done. Review and approval help to reduce uncorrected errors, irregularities and inaccurate or incomplete information in funds, accounts, and reports.

8. Maintain Adequate Supporting Documentation

Auditors and program monitors often assume that "if it isn't documented, it didn't happen." Adequate supporting documentation provides the hard evidence to properly verify that the appropriate processes and controls are being used.

9. Provide Adequate Training to Staff

Employees should be properly trained and authorized to perform their duties. It is important to remember that training should be considered an ongoing process and staff training needs should be periodically evaluated to consider changes in business processes, technology, new laws and regulations, etc.

10. Perform a Self-Evaluation of Your Internal Control

Performing a self-evaluation of your internal control can help identify possible deficiencies before problems arise and will lead to the implementation of more effective controls. This self-evaluation can often be done by performing a "walk-through" which is simply the act of tracing a transaction through agency records and procedures. The walk-through will help provide an understanding of process and control design, particularly with respect to controls that may help prevent or detect fraud, a determination of whether controls have been designed effectively and actually placed in operation, and help identify points in the organizational processes where errors might occur.